DOW THEORY LETTERS INC.

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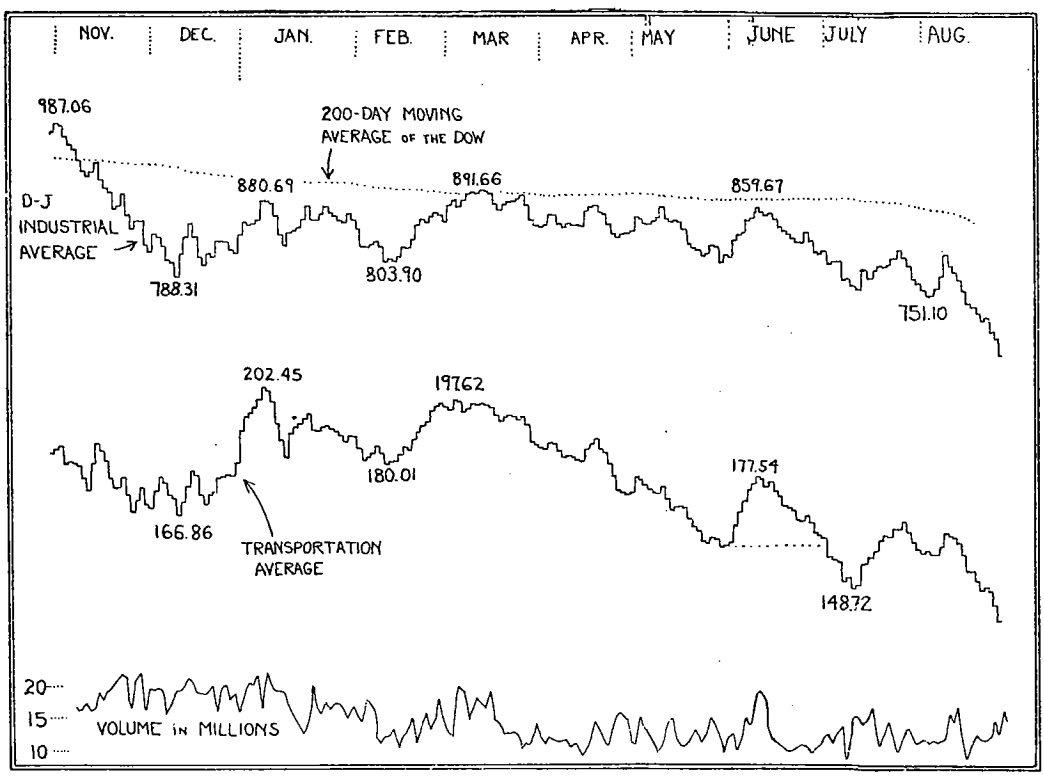
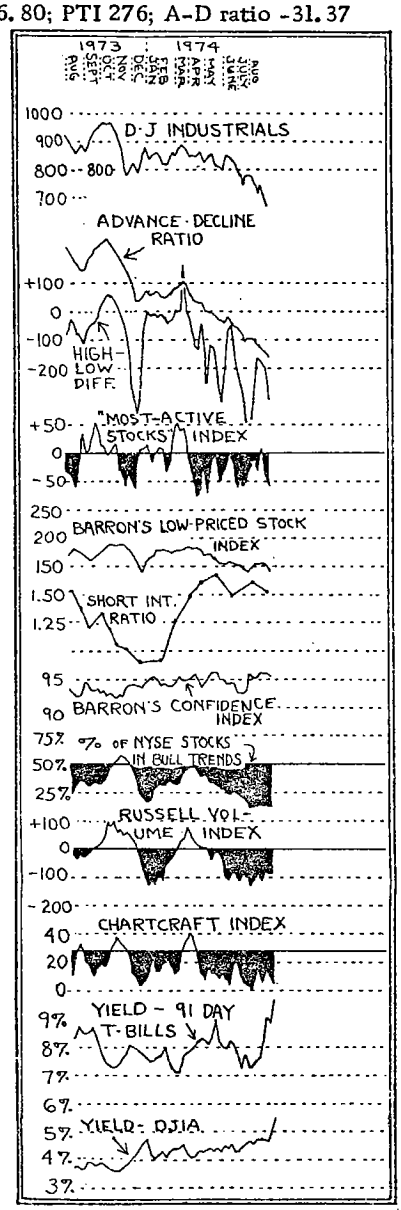
TODAY: The fear is still price inflation. Sincere but wrong people, working with the wrong information are fighting the wrong battle at the wrong time. Within a matter of months inflation (of goods and material prices) isn't going to be a problem. Wall Street is deflating, and Wall Street is telling us that the balloon is about to pop. ECONOMY: Inventories continue to climb (as a hedge against inflation) as sales begin to sag. Implications are extremely ominous. 1975: The key word for 1975 is going to be "reflation" or how to get the balloon blown up again. They'll try it with massive increases in the money supply and mobilization of the world's gold reserves to much higher prices. THE MARKET: The bear is taking over. Everyone is waiting for the "big selling climax." The bear doesn't want to give Wall Street what it wants. The bear wants to continue the erosion script in this "great slow motion crash." THE BOTTOM: Take the consensus of the real pessimists' prediction for a final bottom on the Dow. That's a figure of about 625-50. Then lop off another third. That's about where I think the bear market could end.

THE PICTURE: I'm aware that subscribers may be having a difficult time following all the studies and discussions which appear here. But after all, I spend about 12 hours a day thinking about the stock market (I'll admit I even dream about it). If you tried to explain the intricasies of your own business to me, I'd probably be totally confused, which is also par for the course. To make matters even worse, the key word at this critical juncture in world economic history is change. And that again means new ways of thinking.

The nations of the world are now slipping relentlessly into recession. Business Conditions Digest (Dept. of Commerce) charts industrial production in eight leading industrialized nations. Every one of their production profiles is moving sideways to down. This suggests that the next major world problem is going to be slumping business, tottering banks, eroding confidence, political chaos and collapsing prices of goods and materials. Now there isn't





a government in the Free World that won't move to reflate in the face of rising unemployment and declining business. I expect this reflation to start in earnest during 1975. With it we should see a major rise in the one thing which can be easily inflated during a depression — gold.

In a recent speech before the National Press Club (Washington) AFL-CIO President George Meany said, "The economy might be better off if Arthur Burns got his 'cottin-pickin' hands off it." Mr. Meany has 13 million voting members in his little union. Meany

states that if unemployment rises over 6% due to the Fed hard money policy, then the Government should provide "massive Federal grants to the states and local governments" to hire the jobless. And I think that is exactly what's going to happen.

On August 20 President Ford chose Nelson Rockefeller as his Vice President. In view of the fact that Ford has termed inflation our domestic public enemy number one," I find Rockefeller a rather strange choice (he can hardly be termed an anti-inflation symbol). Rockefeller practically spent New York broke when he was Governor. (For more on this profligate spender, see Barron's August 19, page 7).

If the US is on the road to "acceptable rates of inflation" as Treasury Secretary recently put it (I ask myself what the devil an acceptable rate of inflation is), then I must have missed something somewhere. The way things are going, roaring monetary inflation (and recession) are going to be facts of life during the year ahead. The monetary inflation will, in my opinion, dwarf the kind of inflation we witnessed during the 1960's and early 1970's. And that's when the gold bull market is going to burst into its final, speculative phase — after the recession (or depression) begins (and as the paper currencies of the world head toward the ultimate basement of inflated worthlessness).

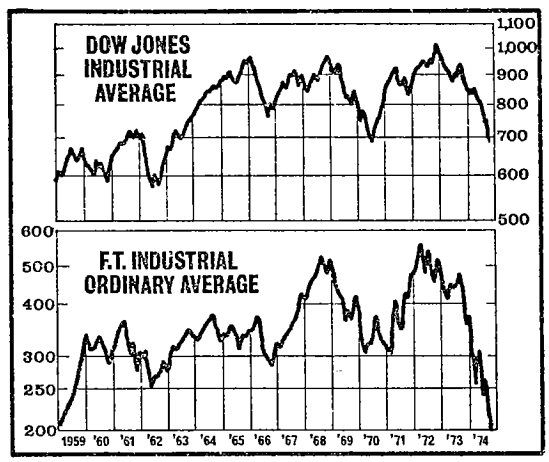
At present, the newspapers, magazines and advisories are still filled with all sorts of dire warnings about the dangers of holding gold bullion. Daily, citizens are cautioned that "gold can go up as well as down." Well, my comment is, when did a bull market (such as the gold bull market) ever end amid such fear and caution? When did a bull market terminate prior to excited public participation and a "sky's the limit" atmosphere? The answer is that the gold bull market is far from ending. My feeling is that the gold bull market has just about formed its base, preparatory to the major, spectacular third phase rise.

Conversely, every advisory service I read is talking about the "major bottom" in the stock market which "lies just ahead," a bottom which should be reached "after one more selling climax." We could well be nearing a secondary bottom or a rally area, but I will say again that this is not the atmosphere I associate with a major bottom. The advisories, in that they are talking about "a major bottom just around the corner" are still semi-bullish. They haven't given up yet, they are not talking about the end of capitalism and Wall Street yet, they are not even cognizant of the monumental problems which are looming just over the horizon.

I believe that Britain is providing us with a preview of some of the events which will shortly overtake the US. I am including for comparisons (see Letter 602, page 4) a chart showing that the British market tends to lead the US market, particularly in the establishment of new lows. As of last week, the Financial Times Ordinary Share Index was down from its 1972 high of 543.8 to an 18-year low of 199.8, a loss of 63%. If the Dow was to turn in a comparable performance, it would have to descend to the 390 area or the area of the 1929 high (which was 381). How could that happen? I would say that the odds for an ultimate 390 on the Dow are better than the odds for the current 700 vicinity representing the final bear market low.

The effects of socialism and irresponsible fiscal policies are now coming home to roost in Britain. I include news clips which underscore the troubles of the once "tight little island." I do not want readers to think that I take the collapse of Britain lightly. I don't. When the same people who were capable of fighting the heroic Battle of Britain lose the battle of their own economy, it is a black day for the nations of the Free World.

From a reader and correspondent in Monte Carlo (SK to those who know him) I received the following last week: "Have heard through reliable bank sources that the deal is made and the Italian lira must be devalued by 20%. Also a rumor that Holland will re-value the guilder soon, by about 5%. The Dutch government is not strong (too socialistic, but the money is hard). Great Britain is punchy due to its Labor Government and the falling pound. How long it will hang on without an official devaluation is a day to day question."



LONDON (AP) — An angry crowd of Britons who saw their vacations fizzle with the collapse of the great Court Line travel company stormed the firm's London headquarters yesterday.

Police blocked the crowd's charge into the boardroom where Court Line directors were holding an emergency session to try to find ways to salvage the company which controls one-third of Britain's foreign package tour business.

The crowd beseiged the office, demanding their money back. More than 150,000 Britons faced losing their money and summer vacations after Court Line announced its liquidation late Thursday night.

MASSIVE AIRLIFT

Meanwhile, tour operators and airline chiefs came to the firm's aid with a massive rescue airlift to bring home up to 50,000 persons who were already on holiday but stranded abroad by the liquidation.

Arabs' Oil Money Shifts to U.S. From Weakened Britain

LONDON (AP)—Arab oil money is being pumped out of a weak Britain economy for reinvestment in the United States, bankers said Friday.

Banking sources said the large amounts of money withdrawn in the previous two days indicate Arab concern over the British economic outlook and a newfound confidence in the dollar.

Britain's trade deficit of a seasonally adjusted $1.13 billion last month held about steady from May and June. The pound's value fell on a strengthening of the U.S. dollar.

Britain's government published its long-awaited proposals for increased nationalization and government participation in private industry. The document didn't mention specific companies or what would happen to those not cooperating.

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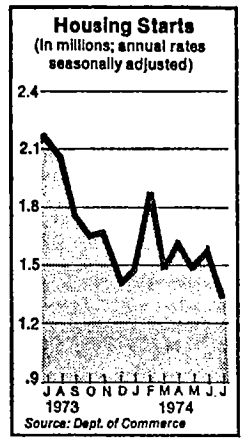


Signs of the gathering slump in the US can be seen in the steady slide in housing starts (down to 1.3 million annually), the sluggish auto sales, the beginning of major cutbacks in capital spending, falling appliance sales, and Sindlinger polls which show that almost half of the American families are expecting a 1930's type Depression (frankly, I don't know what to make of the last one; but I sense it is a building storm, not the end of the storm).

I've been warning about the battle for liquidity. It's happening now. From a new subscriber comes this chilling note, "I took everything you've said with a grain of salt — until the Fed started selling those short-term notes retail through the Federal Reserve here in Detroit. Wow, I work downtown. The line at the Federal Reserve here went all the way around the block for three straight days. It's a big block, too!" (L.F., Detroit).

What can I add to an on-the-spot description like that? Nothing, except that when a nation runs out of money it only has two choices, bankruptcy or inflation. My guess is that the US will use the latter to stave off the former, which is (and I'll repeat this again) our basic rationale for owning gold.

THE MARKET: In ordinary market collapses, the Dow Industrials tend to halt or resist at preceding major tops and bottoms. For this reason, I accorded particular importance to the 725-745 area. Here's why. The major December, 1961 Dow peak was 734.91. The famous October, 1966 low for the Dow was 744.32. What we're seeing now is no ordinary market collapse. Last week the Dow cut through the 725-45 area as if it didn't exist. All of which reminds me of statements I have made before. Big primary movements are no respectors of preceding highs or lows or anything else. The primary trend, once it gets "a head of steam" on, is a law unto itself. We mortals should understand this and act accordingly. Even the village idiot gets off the track when he sees the train coming.

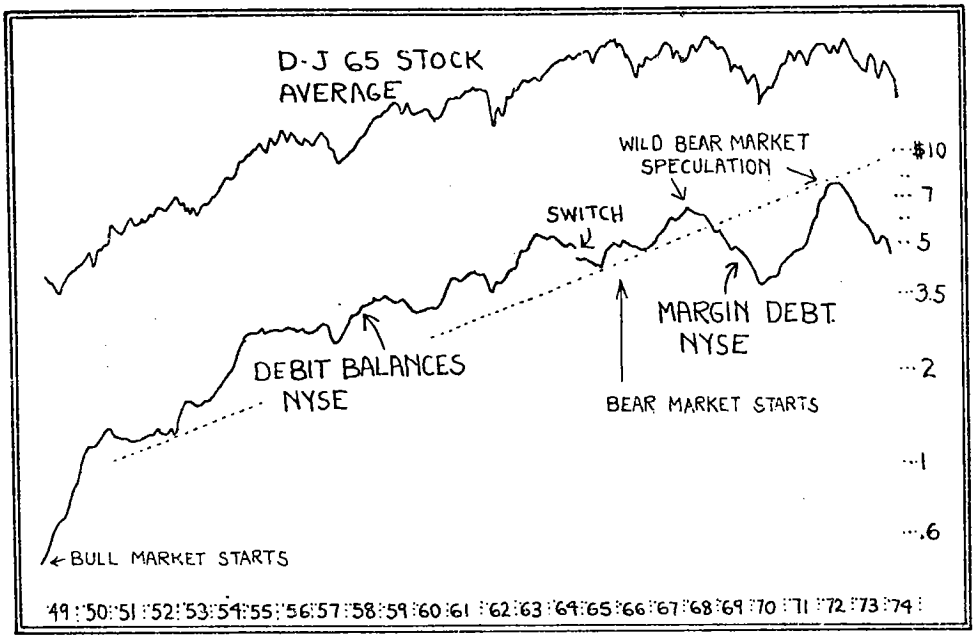
Wall Street has never taken kindly to the concept (often presented here) that primary bear movements do not run to preconceived technical "support levels" — rather they run until they are exhausted. Recently the 680-710 area seems to have gathered the largest technical fan club, and many hope that this will prove the launching area for a good rally. And so it could. But I must warn readers of my old rule to the effect that "the market will do whatever it has to — to make fools out of the greatest number of people." If the rule holds, then it would not surprise me to see this market collapse continue right through the 1970 low (for the Dow) of 631.16 before embarking on the first meaningful and major rally. Such action, if it materializes, would serve to destroy a large number of brokerage accounts as well as whatever reputations are left among Wall Street advisors (which is exactly what the bear wants to do).

My daily market diary has been ticking off the carnage wrought by the bear, and I must say that August 23 provided a total and complete sweep. On that day the bellwether Utilities tumbled to a 15 year low. General Motors, another bellwether, broke below its 1960 low. The Dow Industrials melted below the 700 level to close at their lowest level since the 1970 lows, and Transports followed "in gear" (see page 1 chart). The broad NYSE Composite Average (all NYSE stocks) smashed below its 1970 low. The Primary Trend Index (Aug. 23) broke to a new bear market low as did the advance-decline ratio and the cumulative most-active stock index. Finally, the D-J 40-Bond Average stumbled to a four year low on August 23, thereby confirming the new Utility low (see last Letter, page 4). The new lows on the bellwether Utility and Bond Averages must be taken as a harbinger of major new lows to come on the various stock averages. I know of no case in past history in which the stock market bottomed before the Bond Average succeeded in recording an important low of its own.

Conclusion: I feel that the curtain is close to coming down on the second psychological (nothing to do with price movements) phase of this primary market. The second phase is the one in which the market goes down as it reflects deteriorating social, political and economic conditions for stocks. I would expect the second phase to end with the Dow below 631.16, following which we should see a good (perhaps major) upward correction. After that we should descend into the real liquidation phase, the third or final phase of the bear market. The third phase will provide the great shocks, the unbelievable percentage declines, the crushing bad news, the social upheavals — and finally, the bottom, the unshakable bottom, the blessed, bedrock, shimmering final bottom!

ROUND TRIP: Back in the early 1960's my old friend Dr. Sloan Wilson did a great deal of work with stock market credit (including writing two books, "Public Participation in the Stock Market" and "The Speculator and the Stock Market"). Wilson noted that the speculator's most important "tool" is his margin account. During a great primary bull market, said Wilson, the debit balances (money owed in customers' accounts) will rise as the speculators build up and pyramid their margins. The converse is true during a primary bear market. In fact, observed Dr. Wilson, this whole phenomenon gives rise to what Wilson terms the "round trip." What Wilson was referring to was the characteristic of margins building up from low levels during a bull market, then turning down at or near the top of a bull market. In the ensuing bear market the debits (now reported as margin debt) will usually decline to or near the level which existed when the preceding bull market began.

Alot of water has passed over the dam since Dr. Sloan Wilson published his books and terminated his advisory service, but I still keep one eye on the NYSE margin debt. In 1949, when the 1949-66 bull market began, debit balances on the NYSE were approximately $100 million. By the end of 1949 debits had advanced to about $900 million. So as a round figure, we can say that the bull market began with debit balances under $1 billion.



In 1965 the NYSE began reporting NYSE margin debt plus debit balances, and in 1970 the Exchange dropped the debit figures altogether, reporting margin debt alone. At any rate, the peak of debits occurred in 1968 at around $10 billion while the peak for margin debt occurred in 1972 at around $8 million.

As seen on the accompanying chart the rise in the speculators' debt can be traced by an ascending trendline. The trendline was broken to the downside in 1969. Following 1969 the market rose in an abortive and inflation-inspired bear market rally, and speculators' margins again swelled. Note, however, that all of the 1970 to 1973 margin rise occurred below the ruptured trendline. Then in 1973, as the bear took hold of Wall Street again, margins turned abruptly down.

The latest figures from the NYSE shows customers margins at $4.7 billion, down from the previous $8 billion high, a drop of about 41%. One of the things we are seeing is the demise of the speculator, and the tell-tale indication is the destruction of his most important tool, his margin account. How far will the carnage go? My own guess is that before this bear market is over, we will see margin debt on the NYSE back to or near the 1949-50 level or somewhere near $1 billion. Does this sound impossible? It isn't; it's merely par for the course when a great bear market follows a great bull market.

Conclusion: One of the indications of a final bear market bottom (and the solid footing at the bottom) is a collapse in the speculators' position, as gauged by NYSE margin accounts. At the bottom the market should be near a cash position. It will pay us to watch this area closely.

ELLIOT: You need three things to survive in the stock market and probably four. The three are money, knowledge and guts. The fourth is luck. The only easy thing you can do in the market is lose money. Everything else takes work. I have found the Elliot Wave Principles to be a help to me in investing and understanding the big picture. That's why I have included rather simplified (and I hope understandable) run-downs on Elliot in these reports for the past twelve years.

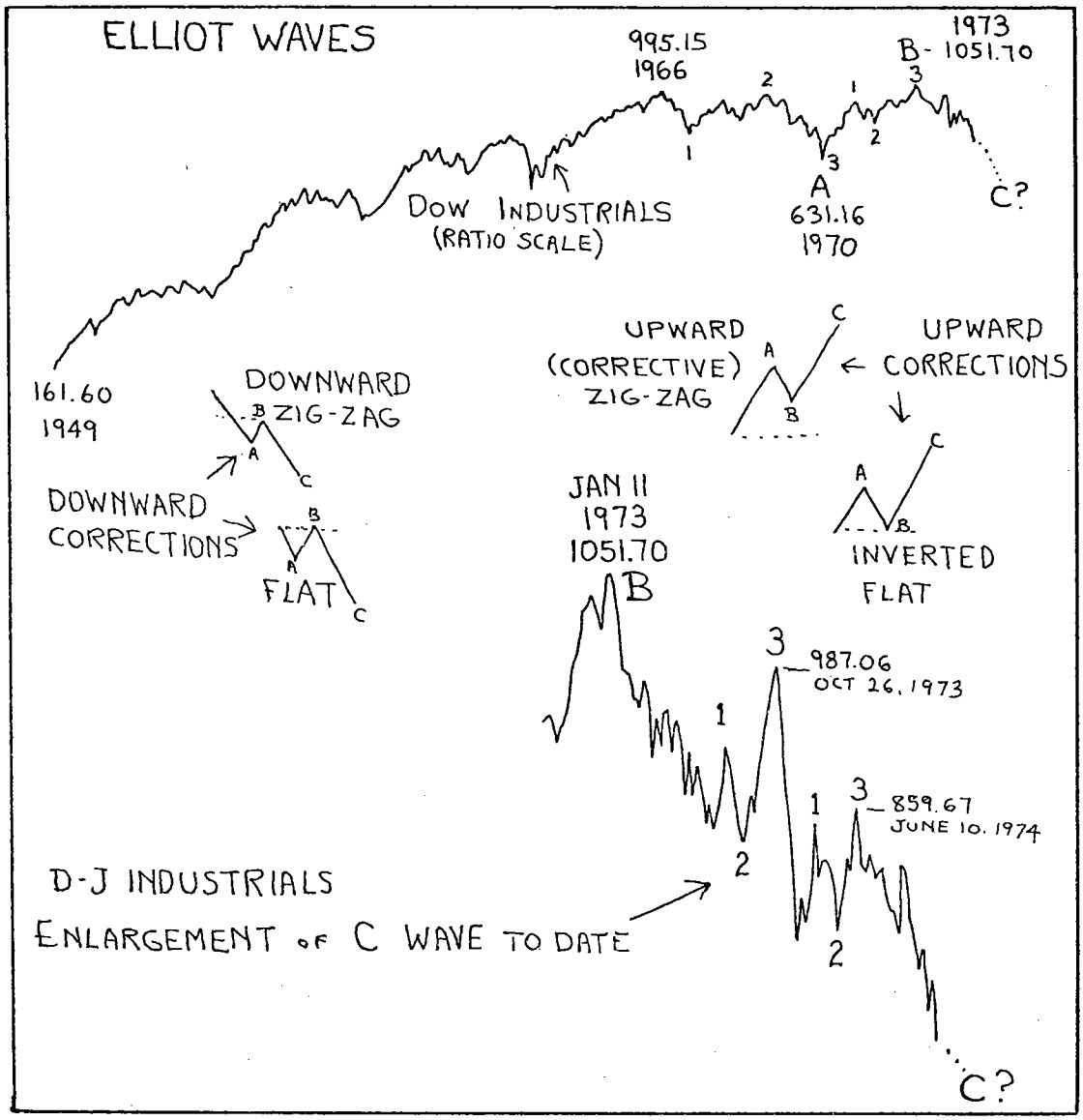
In Letter 568 and again in Letter 583 I presented reviews of the Wave Principles as I apply them. In Letter 583 I published a very long term chart, showing the interpretation of Mr. A.J. Frost of Ontario, Canada, to my mind the leading Elliot practitioner living today. Frost worked with Hamilton Bolton (founder of the Bank Credit Analyst). Bolton did much original and outstanding work on Elliot. I corresponded with Bolton while he was alive, and I have corresponded with A.J. Frost since.

As older readers know, Elliot bull markets come in the form of five waves with the 1, 3 and 5 waves being rising waves and the 2 and 4 waves being corrective waves. Elliot bear markets are made up of 3 waves, the 1 and 3 waves down or bear waves. The 2 wave is the rising or corrective wave.

A.J. Frost interprets the super-cycle as follows (see Letter 568): We have been in an Elliot super-cycle since July, 1932. The first bull wave carried from 1932 to 1937, the (bear) correction lasted from 1937 to 1942. The great bull leg #3 was the rise from 1942 to 1966. Frost believes (as I do) that we have been in wave 4, a major bear or corrective wave, since 1966.

Elliot bear market corrections (see page 5 chart) take the form of downward zig-zags or flats. The downward zig-zag is usually the more drastic of the two. In the milder correction or the flat, the middle (B leg) often equals or even surpasses the preceding bull market high as shown on the chart. This is exactly what occurred when in January, 1973, the Dow bettered the 1966 peak of 995.15. Thus, Frost and I feel that we are now (and have been) in a flat-type correction ever since 1966.

The main A-B-C waves in an Elliot flat-bear market break up into a further division of 3-3-5. I have marked the A wave (1966 to 1970) with a 1-2-3 showing the three divisions. I have done the same with the B wave (1970 to 1973) showing the 3



divisions to the 1051.70 peak of 1973. The lower part of the chart deals with the C wave, and this is the major downward wave we are now in. This C wave should ultimately take the form of five legs and terminate below (perhaps well below) the 1970 low of 631.16. Frost believes that the bottom of the C wave could be around the 520 area, the level formed by the 1955-56 tops. I do not disagree with this view, but it would not surprise me to see the Dow go below the 520 area; possibly even to the area of the 1929 peak of 381 before this bear market breathes its last.

Many feel that the current bear market could not be more drastic or costly. I take issue with this viewpoint. I would say that it is "lucky" for Wall Street and the world that the primary bear market which began in 1966 has assumed the form of an Elliot flat — rather than a zig-zag. If the bear has been a zig-zag, I am reasonably convinced that the downside action would be of much more catastrophic proportions.

Referring to the lower section of the chart, this is simply an enlargement of the B to C wave (1973 to the present). It is important to study the two upward corrections which have been numbered 1-2-3, the first correction ending on October 26, 1973, the second terminating on June 10, 1974. These are inverted or Elliot flat-type corrections against the main declining trend of wave C. Just as flats in a bull market are milder than downward zig-zag corrections, inverted flats in a bear market represent weak upward corrections. This is important. It is important for two reasons: (1) inverted flats (such as those of 1973 and 1974) are indications of weakness, and these weak upside corrections usually generate strong subsequent downside action. They have done exactly this. (2) But Elliot corrections tend to alternate. Therefore, following these flats we can probably expect a correction of the (upward) zig-zag variety. This should produce some impressive rallying action somewhere ahead.

I realize that the foregoing Elliot material represents "heavy going" for the average reader. I don't know how to avoid that. We're playing the toughest game in the world when we handle our investments. We're competing with the top brains, the

 biggest money, the coldest calculators. We've got to try to be as smart or smarter than most of them. That's the reason for the hard work and the mind-bending studies.

A LETTER: I received a letter last week from Mr. Irving Reich, publisher and editor of the well-known and highly respected Scientific Market Analysis, 195 Nassau St., Princeton, NJ 08540. I haven't done this in a long time, but I do want to answer this important and instructive letter in print.

To begin with, I want to take exception to Mr. Reich's view which may be summed up as follows: events since 1966 do not jibe with Reich's concept of what a bear market should look like. Stocks may have dropped drastically, but he still does not believe it is a classical Dow Theory-type bear market. Let's take another example. Say we are introduced to a 220 pound man who is now 110 years old, a most amazing fellow. Skeptics say, "Hmm, very, very few humans ever live to be over 95. The fact that this fellow is 110 is utterly extraordinary. But none of the few people who have lived passed the age of 100 have ever weighed more than 180 pounds. This 'speciman' is 110 years old and weighs 220. The conclusion is clear. He is not human!" Of course, the logic here is faulty. Our aged gentleman is simply unique. But he would be mighty angry if he heard us suggest that he was not human.

Next, I will turn to the five numbered questions. My answers will provide one exception in each case (rather than a complete listing of all exceptions to Mr. Reich's rules"). (1) Let us remember that most of history's bull and bear markets lasted only two to five years. When Mr. Reich asks for examples "years after the top," this is not possible since bear markets never lasted more than two or three years in total. Our current eight-year bear market is, of course, a record, but that simply means that we are in a uniquely long bear market which I believe is fated to go longer yet. In answer to the first numbered question, the bear market of 1909-10 (Robert Rhea's classification) began on August 14, 1909. The Averages turned down, but three months later, on November 19, 1909, Industrials hit a new high above the peak of the preceding bull market.

(2) Bull market peaks were recorded on November 9, 1938, whereupon the bear market of 1938-42 began. At the preceding bull market peak the Transports were 33.18. Yet eleven months later (on Oct. 25, 1939) Transports rallied to a new high of 35.90. 2 points above the preceding bull market peak. This is the exception to Mr. Reich's rule #2.

SCIENTIFIC MARKET ANALYSIS 195 NASSAU STREET, PRINCETON, N.J. 08540

August 9, 1974

Dow Theory Letters Inc.

Dear Mr. Russell:

I have always enjoyed reading your publication. Although I get something like 45 different services, there are only five or six which I really respect, and yours certainly is one of these. This does not mean that I always agree- - but rather that there is always original thought and research, and thought-provoking material, and a coherent view.

Still, I would like to challenge your basic concept, and would be pleased if you could find time to answer the following (in your publication, should you wish to do so, or privately). I hope that this will serve as a stimulus to thought for you, just as you have so often done for me.

You say that we have been in a major bear market since the start of 1966, that we are now only in the second phase of it. Hence you look for much lower prices, and finally a washout in which stocks are dumped regardless of value by people who must raise money somehow (third phase). Obviously that is some distance ahead yet. Your advice is to stay clear of the market in view of the dire events still ahead according to the three phases of the Dow theory. You also draw analogies from time to time with past bear markets.

But can you cite any bear market in history in which the following events have happened, well along in the bear market (years after the top)?

1 - The Dow Industrial Average reached a new all-time high.

2 - The Dow Transportation Average reached a new high.

3 - Trading volume moved to brand new highs, at times more than double the volume around the supposed bull market peak.

4 - A great wave of public speculation drove hundreds of low-grade stocks to fantastic levels. Speculation became very fashionable and go-go "gunslingers" became Wall Street heroes.

5 - Corporate earnings moved on to brand new all-time highs.

I do not know of any bear market in which any one of the above occurred, let alone all of them. So if one insists on calling the period since 1966 a bear market, one must admit that is, to say the least, a very peculiar - indeed, a unique bear market. In that case its further development and its end might prove equally unique and might not accord with the classical third-stage scenario which you describe so graphically.

My own view is that the classical Dow Theory scenario is being altered drastically by the consequences of the Employment Act of 1946 and more particularly by the fact that the government has cut our currency loose from gold and is thus able to inflate without limit. Thus under Nixon - the supposed conservative - we have seen hair-raising budget deficits which no one would have dreamed possible only a few years earlier. And I think that this is only a foretaste. With the gold reserve requirement gone, the Fed can monetize these deficits without limit.

The classical Dow Theory was set up in an age when we had "hard money" and when a period of speculation and credit excesses would automatically have to be paid for by a following period of liquidation and constriction. I do not claim that the new system based on printing-press money can repeal the laws of economics, or that the piper will not have to be paid in the end. I do claim that the new rules can change the scenario drastically, as to timing, trends and as to just how the piper is paid. (For example excessive debt can be wiped out by liquidation and bankruptcies, as in the 1930's. But it can also be wiped out by hyperinflation).

In summary, while I don't doubt that lots of trouble lies ahead, might it not take forms quite different from those outlined in the classical Dow Theory? Do not the items I listed on page 1 already suggest such differences?

Best Wishes,

Irving Reich

(3) In answer to this one, I will quote Robert Rhea regarding the massive bear rally of 1930. "I can remember having shorted stocks early in December, 1929, after having completed a satisfactory short position in October. When the slow but steady advance of January and February carried above (the preceding peak), I became panicky and covered at considerable loss.... Nearly everyone was proclaiming a new bull market. Services were extremely bullish, and the upside volume was running higher than at the peak of 1929." I might add that many stocks in 1930 bettered their old highs, including various stocks in the new-born (talking) motion picture business. I suppose this also should answer comment #4, but I might as well add that deception is a characteristic of the second phase of a bear market. One of the second phase deceptions is a revival of speculation intensity during upward corrections. Thus, the speculation since 1966 was nothing new. The intensity and duration of the speculation could be considered extraordinary, but then we had history's greatest inflation to spur that speculation.

(5) As far as corporate earnings moving to new highs during the bear market, this is true, but the market never believed in those earnings as we can see by the collapsing trend of P/E ratios in the Dow since 1965. As far as today's earnings are concerned, inflation has accounted for a goodly part of them. Commenting on the profits picture, the latest (August) Harris Bank report states, "...in spite of growing statistics reported by the Dept. of Commerce, corporate profits actually have been terrible. Inflation and certain accounting procedures have led to a substantial overstatement of profits as reported by most businesses at a time when the return from corporate bonds has risen sharply."

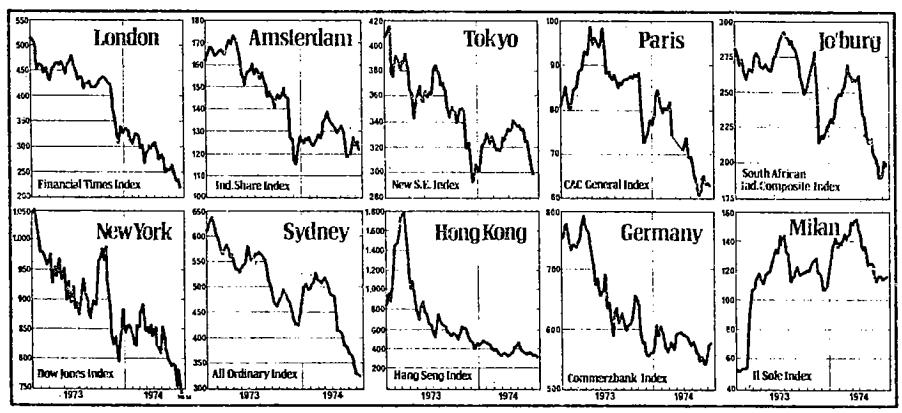
As far as "the Dow Theory scenario's being altered, "I can promise Mr. Reich that the Theory remains the same, but each individual bull and bear market script does indeed change. Government interventions have succeeded in turning small bull markets into big ones, and Government meddling has undoubtedly changed small bear markets into monsters. Dow's Theory allows for all that.

The three psychological phases (which are an integral part of the Theory) still form a totally valid concept. The confirmation principle of the Averages still provides excellent readings. It simply remains for us poor analysts to interpret the phases and the market action correctly. Remember, Dow's Theory is based on human nature, and when last I checked, human nature had not changed (despite the Employment Act of 1946). Men will drive stocks to unsustainable heights through greed (bull market tops), and the same men will smash these same stocks to tragic lows because of fear (bear market bottoms). Mr. Reich is correct in that today's bear market may end with a burst of hyper-inflation rather than deflation. But the ultimate effect will be the same, and stocks will end up in the cellar. Values will be wiped out and men will wring their hands. That part will not change. It hasn't changed since the cavemen began trading ax-heads.

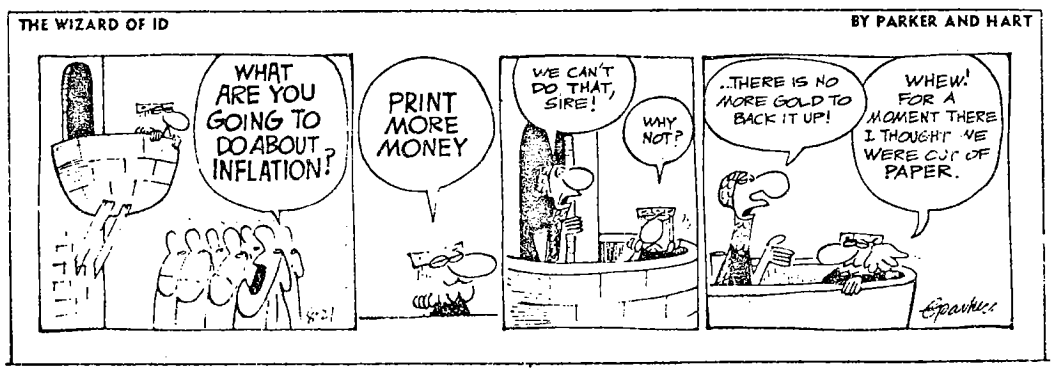
Of course Mr. Reich is also correct in that the timing will change, the highs may be higher, the lows may be lower. Inflation may be worse now than it was in 1928, and conditions today may look worse to Mr. Reich than conditions appeared to the analysts of 1930 and 1932 (although I doubt it). But I also say, what of it? Every emergency in a true bear market looks like the end of the world, and every boom in a bull market looks like a new New Era. That's all as it should be. Wall Street doesn't exist to provide easy answers for market letter writers. And Wall Street doesn't "stay the same" so that this year's investors can follow the techniques that worked a decade ago and make a killing. The basic tenets of Dow's Theory take all this into consideration, and for that reason I am reasonably certain that the Theory will be around and be interpreted long after the writer and Mr. Reich have left the scene.

That is exactly why I have tried to present these reports in the form of a "market education" rather than a poop sheet on "what Richard Russell thinks the market is going to do next." Theoretically, if I did this job well enough I would put myself out of business. I would do this for the simple reason that over a given period of time subscribers would know how I think and why. At that point they wouldn't need me any longer, and they could operate beautifully on their own.

NOTES, QUOTES: I have always held that primary bear markets are international in scope. What is happening today will effect economies across the face of the globe. The Arabs with all their oil, are going to have troubles aplenty, as will Russia and China. Never have the world's financial systems been so intertwined.

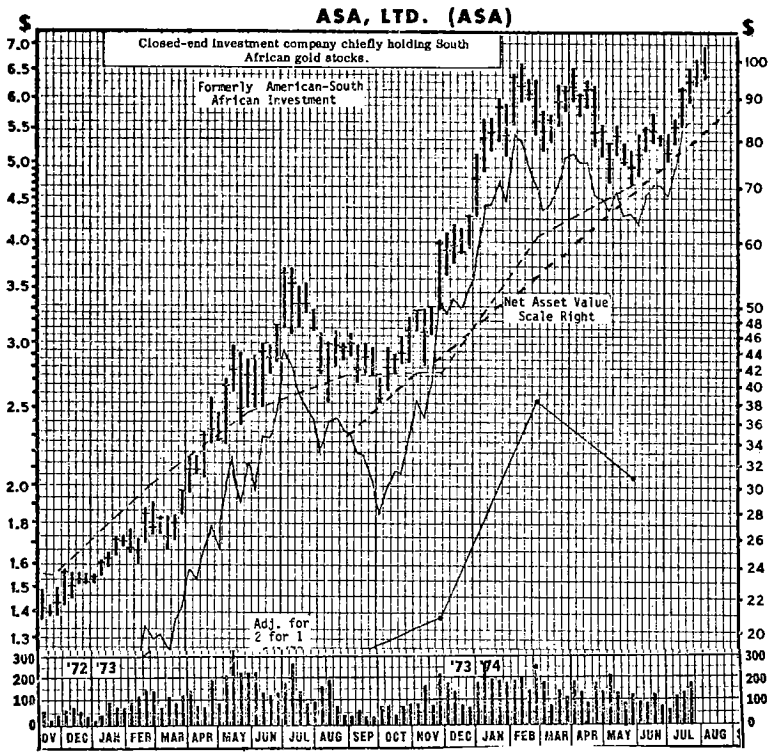


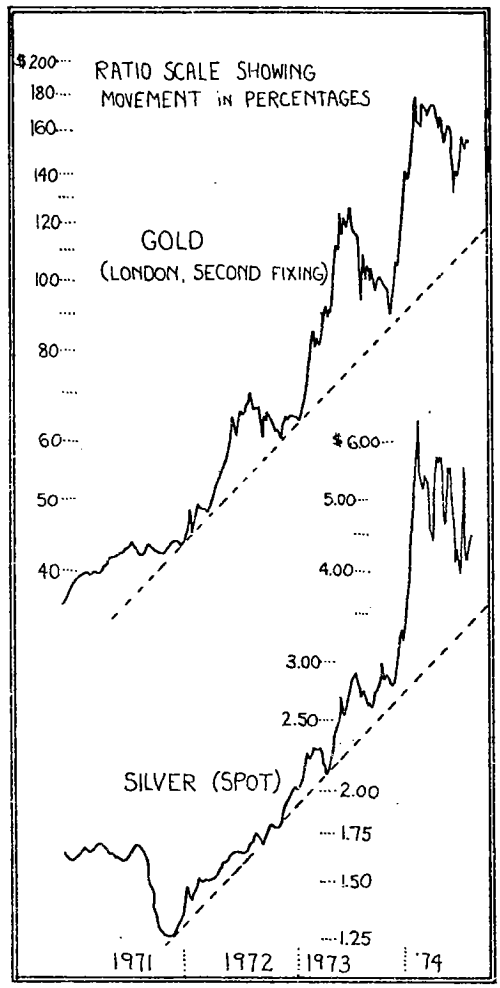
In proof thereof, I am including this multi-chart of ten of the world's stock averages. You be the judge of what is occurring. And as an antidote, I will also include this latest episode of the "Wizard." I guess this humorous strip reminds me of what Ludwig Von Mises once wrote, "Government is the only agency that can take a useful commodity like paper, slap some ink on it, and make it totally worthless."


THE WIZARD OF ID
BY PARKER AND HART
WHAT ARE YOU GOING TO DO ABOUT INFLATION?
PRINT MORE MONEY
WE CAN'T DO THAT, SIRE!
WHY NOT?
..THERE IS NO MORE GOLD TO BACK IT UP!
WHEW! FOR A MOMENT THERE I THOUGHT WE WERE OUT OF PAPER.

A number of readers have asked me what I think of President

Ford. Well, I'll join the crowd and say he's honest and sincere. But I think he's going to be wishy-washy on the issues that require strength. I thought he was fuzzy on the amnesty issue (what's his stand?). I also thought a strong stand against inflation might have entailed picking anyone rather than Rockefeller (Goldwater, for instance). Financial World quotes "a noted economist" who talked to Ford a few weeks ago, " I got the feeling he didn't know what the hell I was talking about. He knows the economic situation is serious, but I don't think he understands the issues. That's going to be his problem." I hope it isn't our problem as well.





NOTES: The July Transport low was mis-labeled in the last Letter. The correct low for the D-J Transportation Average (July 11, 74) was 148.72, and of course this was smashed last week, which means that the Industrials have been fully confirmed by the carriers on the downside. . . . The weekly plurality of new highs and lows (NYSE) for the week ending August 23 was 756. This was hardly climactic, and readers should refer to the study presented in Letter 603. My figure for a climactic week and temporary bottom is a plurality of weekly new lows over new highs of 1200 or more. We're not there yet.

GOLD, GOLD SHARES: Last week my bellwether US Treasury bond, the 4¼ or 1987-92, broke down and rendered a bearish downward zig-zag. I take this as being bearish for the money market in general. Under the roughest and most competitive interest rate picture in memory, the price of bullion has been holding well (remember, bullion must compete against interest-bearing vehicles such as US Treasury bills). As my weekly ratio chart shows, gold has been holding well above its major long-term trendline, and it has also been holding above its recent July reaction low of $129. I feel that gold is backing and filling, preparatory to the appearance of hyper-inflation as described earlier in this report. Silver has been fluctuating in much wider percentage swings than gold, but here too we have a bullish picture in that silver is holding well above its long-term trendline.

There is no question but that Homestake (HM) is now the bellwether and best-acting of all the gold mining shares. Having exploded from its May low of 35 to an August peak of just under 70, the stock should now correct. If it holds half or more of its 1974 gains, HM should hold above the 52 area, which would be extremely bullish.

I am including a chart showing the weekly action in ASA, and here we see that this holding company has been moving above a well-established trendline or "rate of growth" line. The trendline can support a decline down to 87, and in the face of the bearish forces, which are (1) a liquidation of stocks across the board, and (2) fantastic interest rates, and in the face of the positive forces for gold, which are (1) possible hyper-inflation and (2) distrust of all fiat currencies, I feel that the latter two will (in due time) send gold and gold shares to much higher ground. (Chart of ASA courtesy of Security Research, 208 Newbury St., Boson, MA 2116).

Late, Late note: In the face of the continuing crash, almost every advisory received here today (August 26) reads, "The market seems to be heading towards an important bottom." Of course, that's true. Every major collapse in history was heading towards an important bottom. In September, 1929, the same could have been said. The bottom was three years away, and 89% down. Moral — enough platitudes can break any man on Wall Street.